

# **City of Lansing, Sewage Disposal System Fund**

**Financial Statements**

**June 30, 2004 and 2003**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Lansing, Sewage Disposal System Fund</b>	County <b>Ingham</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>11/19/04</b>	Date Accountant Report Submitted to State: <b>2/8/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>PricewaterhouseCoopers LLP</b>			
Street Address <b>400 Renaissance Center</b>	City <b>Detroit</b>	State <b>MI</b>	ZIP <b>48243-1507</b>
Accountant Signature		Date <b>2/8/05</b>	

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**Report of Independent Auditors**

To the Honorable Mayor and City Council of  
City of Lansing, Michigan

In our opinion, the accompanying statements of net assets and the related statements of revenue, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the City of Lansing, Michigan, Sewage Disposal System Fund at June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the City of Lansing, Michigan, Sewage Disposal System Fund's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with Government Auditing Standards, we have also issued our reported dated November 19, 2004 on our consideration of the City of Lansing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of our audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis ("MD&A"), on pages two to six are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*PricewaterhouseCoopers LLP*

November 19, 2004

## **Management's Discussion and Analysis**

# **City of Lansing Sewage Disposal System Fund**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2004 and 2003**

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The City of Lansing provides this narrative overview and analysis of the financial activities of the Sewage Disposal Fund ("SDF") for the fiscal year ended June 30, 2004 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on the significant financial issues, provide an overview of the SDF's financial activity, identify changes in the financial position and its ability to address subsequent year challenges. SDF encourages the readers to consider the information here in conjunction with the financial statements taken as a whole, which follow this section.

#### **Using the Annual Financial Report**

This annual report consists of financial statements prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Managements Discussion and Analysis – for State and Local Governments: Omnibus – an Amendment of GASB Statements No. 21 and No. 34* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments.

#### **Financial Highlights**

The assets of the SDF exceeded its liabilities at the close of the year by \$181,346,962. Of this amount, \$659,932 is restricted for debt retirement.

The SDF's net assets increased by \$6,510,080. This is mainly the result of increased operating income during the year.

At year end, cash and cash equivalents totaled \$61,878,684, an increase of \$26,515,758, of which \$23,942,096 is unrestricted.

The SDF's total bond debt increased \$37,610,147, mainly due to a new revenue bond issue that is being used for additional construction to the SDF's sewer system.

#### **Overview of the Financial Statements**

The statement of net assets presents information on the SDF's assets and liabilities, with the difference of the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the SDF is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net assets presents information showing how SDF's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event given rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., accrued compensated absences).

When the City charges customers for the services it provides, whether to outside customers or to other agencies within the City, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize accrual accounting; the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. The Sewage Disposal Fund is an enterprise fund, which is also referred to as a business-type activity.

**City of Lansing Sewage Disposal System Fund**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2004 and 2003**

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The statement of cash flows provides additional information about the SDF's financial results, by reporting the major sources and uses of cash.

**Condensed Statement of Net Assets**

	2004	2003
<b>Assets</b>		
Current assets	\$ 25,958,716	\$ 28,494,935
Restricted assets	41,735,859	12,759,477
Bond issue costs, net	561,402	355,003
Fixed assets, net of depreciation	259,387,645	244,557,954
Total assets	<u>\$ 327,643,622</u>	<u>\$ 286,167,369</u>
<b>Liabilities</b>		
Unrestricted liabilities	\$ 5,802,060	\$ 8,949,817
Payable from restricted assets	13,073,666	11,963,750
Long-term debt	127,420,934	90,416,920
Total liabilities	<u>146,296,660</u>	<u>111,330,487</u>
<b>Net assets</b>		
Total capital assets, net of related debt	123,840,926	146,658,740
Restricted for debt retirement	659,932	518,388
Unrestricted	56,846,104	27,659,754
Total net assets	<u>\$ 181,346,962</u>	<u>\$ 174,836,882</u>

Total assets increased by a total of \$41,476,253 for the fiscal year ended June 30, 2004 as compared to fiscal year 2003. The majority of the increase was accounted for by a \$28,976,382 increase in restricted assets and a \$14,829,691 increase in fixed assets, net of depreciation. The overall increase in assets is a result of an issuance of revenue and general obligation bonds during the year.

The largest portion of SDF's net assets reflects its investment in capital assets (i.e. plant, sewers, pump stations, equipment and land). The SDF uses its capital assets to provide service, consequently, these assets are not available to liquidate liabilities or for other spending.

**City of Lansing Sewage Disposal System Fund**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2004 and 2003**

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**Capital Assets, Net of Accumulated Depreciation**

	2004	2003
Land	\$ 202,339	\$ 202,339
Plant	76,833,678	79,249,012
Pump stations	8,591,446	8,855,777
Sewers	99,733,224	102,570,659
Machinery and equipment	109,440	142,298
Construction in progress	73,917,518	53,537,869
Total capital assets, net of accumulated depreciation	<u>\$ 259,387,645</u>	<u>\$ 244,557,954</u>

The total capital assets, net of accumulated depreciation, increased \$14,829,691, an increase of 6.06% from fiscal year ended June 30, 2003. This increase in capital assets is due to the increase in construction in progress of \$20,379,649 or 38% as a result of current-year drainage system improvements.

**Long-Term Debt**

The SDF has outstanding revenue bonds payable of \$55,220,784 (net of unamortized bond discount and deferred loss on refunding) an increase of \$26,718,969. The SDF also has outstanding general obligation bonds payable of \$80,013,225, an increase of \$10,891,178.

**Condensed Statement of Revenue, Expenses and Changes in Net Assets**

	2004	2003
Total operating revenues	\$ 26,529,842	\$ 26,045,574
Total operating expenses	<u>18,382,979</u>	<u>16,974,668</u>
	8,146,863	9,070,906
Total nonoperating expenses	(2,375,386)	(2,236,129)
Total transfers in	1,038,603	2,428,542
Total transfers out	<u>(300,000)</u>	<u>(300,000)</u>
Increase in net assets	<u>\$ 6,510,080</u>	<u>\$ 8,963,319</u>

The operating revenues increased \$484,268 or 1.86%, during the fiscal year ended June 30, 2004. Change in net assets decreased from \$8,963,319 to \$6,510,080 in 2003 and 2004, respectively, a decrease of \$2,453,239 or (27.37%).

The term "net assets" refers to the difference between assets and liabilities. At the close of the fiscal year, SDF had net assets of \$181,346,962, an increase of 3.72% over the prior year.



**City of Lansing Sewage Disposal System Fund  
Management's Discussion and Analysis  
Years Ended June 30, 2004 and 2003**

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The statement of cash flows at June 30 is as follows:

	2004	2003
Net cash provided by operating activities	\$ 11,186,462	\$ 23,646,537
Net cash provided by noncapital financing activities	738,603	2,128,542
Net cash provided by (used for) capital and related financing activities	14,518,332	(19,158,728)
Net cash provided by investing activities	72,361	156,145
Net increase (decrease) in cash and cash equivalents	<u>\$ 26,515,758</u>	<u>\$ 6,772,496</u>

Net cash provided by operating activities was less than prior year by \$12,460,075 due primarily to a reimbursement to the general fund that was made in fiscal year 2004, related to fiscal year 2003. Net cash provided by noncapital financing activities was less than prior year by \$1,389,939 which was primarily due to not having a transfer for fiscal year 2004. Net cash provided by (used for) capital and related financing activities was greater than prior year by \$33,677,060 because of the revenue bond proceeds.

**Subsequent Year Challenges**

The SDF has two primary responsibilities: The repair, maintenance and operation of the Wastewater Treatment Plant and pump stations to ensure the City meets the federal requirements for effluent, and the monitoring of industrial waste.

The SDF has been making progress on the City's Combined Sewer Overflow (CSO) abatement project over the past twelve years. It funds operation and maintenance of the wastewater treatment plant and pump stations, and the testing and monitoring of industrial effluent under management of the Wastewater Division of the Department. Funding is provided for assessment, cleaning, repairs, complaint resolution, and hook-up to the sanitary sewer system which is managed by the Operations and Maintenance Division of the Department.

All capital project activity relating to the sanitary sewer system, which includes the CSO abatement project, and all debt service incurred in the maintenance and development of the sanitary sewer system, has been supported by the SDF. The CSO project is estimated to be at 40% complete as of June 30, 2004. This will continue into the future.

**Request for Information**

This financial report is designed to provide a general overview of SDF's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the:

Director of Public Service  
City of Lansing  
124 W. Michigan Avenue  
Lansing, Michigan 48933.

## **Basic Financial Statements**

**City of Lansing, Sewage Disposal System Fund**  
**Statement of Net Assets**  
**June 30, 2004 and 2003**

	2004	2003
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 23,942,096	\$ 26,198,160
Accounts receivable	1,727,222	1,881,755
Accrued interest receivable	3,022	7,065
Contract retainage receivable	-	115,570
Inventories	286,376	292,385
Restricted assets		
Cash and cash equivalents	37,936,588	9,164,766
Accrued interest receivable	5,594	2,108
Due from other funds	3,793,677	3,592,603
Total restricted assets	<u>41,735,859</u>	<u>12,759,477</u>
Total current assets	<u>67,694,575</u>	<u>41,254,412</u>
Non-current assets		
Bond issue costs, net of amortization of \$256,141 for 2004 and \$217,159 for 2003	561,402	355,003
Capital assets, net of accumulated depreciation of \$83,203,547 for 2004 and \$77,590,570 for 2003	<u>259,387,645</u>	<u>244,557,954</u>
Total assets	<u>\$ 327,643,622</u>	<u>\$ 286,167,369</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 277,357	\$ 630,086
Accrued interest payable	467,452	393,688
Accrued payroll	102,796	122,515
Due to other funds	4,464,574	7,324,272
Due to other governments	125,089	125,089
Accrued compensated absences, current	364,792	354,167
Payable from restricted assets		
Accounts payable	2,738,268	2,622,626
Accrued interest payable	406,660	236,667
Due to other funds	1,843,738	1,689,457
General obligation bonds payable, current	4,420,000	3,790,000
Revenue bonds payable, current	<u>3,665,000</u>	<u>3,625,000</u>
Total current liabilities	<u>18,875,726</u>	<u>20,913,567</u>
Long-term debt, net of current portion		
General obligation bonds	75,593,225	65,332,047
Revenue bonds, net of unamortized discount	51,555,784	24,876,815
Accrued compensated absences	<u>271,925</u>	<u>208,058</u>
Total long-term debt	<u>127,420,934</u>	<u>90,416,920</u>
Total liabilities	<u>146,296,660</u>	<u>111,330,487</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	123,840,926	146,658,740
Restricted for debt retirement	659,932	518,388
Unrestricted	<u>56,846,104</u>	<u>27,659,754</u>
Total net assets	<u>\$ 181,346,962</u>	<u>\$ 174,836,882</u>

The accompanying notes are an integral part of these financial statements.

**City of Lansing, Sewage Disposal System Fund**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2004 and 2003**

	2004	2003
<b>Operating revenues, sewer fees and charges</b>	<u>\$ 26,529,842</u>	<u>\$ 26,045,574</u>
<b>Operating expenses</b>		
Personal services	5,971,030	5,290,767
Purchase of goods and services	6,803,971	6,252,742
Depreciation	<u>5,607,978</u>	<u>5,431,159</u>
Total operating expenses	<u>18,382,979</u>	<u>16,974,668</u>
Operating income	<u>8,146,863</u>	<u>9,070,906</u>
<b>Nonoperating revenues (expenses)</b>		
Interest income	71,804	144,877
Gain on sale of fixed assets	-	6,067
Interest expense	(2,431,358)	(2,342,562)
Amortization of bond issue costs	(49,742)	(32,956)
Miscellaneous income (expense)	<u>33,910</u>	<u>(11,555)</u>
Total nonoperating expenses	<u>(2,375,386)</u>	<u>(2,236,129)</u>
Income before transfers	<u>5,771,477</u>	<u>6,834,777</u>
Transfers in	1,038,603	2,428,542
Transfers out	<u>(300,000)</u>	<u>(300,000)</u>
Total transfers in	<u>738,603</u>	<u>2,128,542</u>
Change in net assets	<u>6,510,080</u>	<u>8,963,319</u>
<b>Net assets</b>		
Beginning of fiscal year	<u>174,836,882</u>	<u>165,873,563</u>
End of fiscal year	<u>\$ 181,346,962</u>	<u>\$ 174,836,882</u>

The accompanying notes are an integral part of these financial statements.

**City of Lansing, Sewage Disposal System Fund**  
**Statement of Cash Flows**  
**Years Ended June 30, 2004 and 2003**

	2004	2003
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 26,684,375	\$ 25,862,410
Cash payments for goods and services	(9,581,656)	3,006,728
Cash payments to employees	(5,916,257)	(5,222,601)
Net cash provided by operating activities	<u>11,186,462</u>	<u>23,646,537</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers in	1,038,603	2,428,542
Transfers out	(300,000)	(300,000)
Net cash provided by noncapital financing activities	<u>738,603</u>	<u>2,128,542</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from sale of capital assets and other miscellaneous income	-	(5,488)
Acquisition and construction of capital assets	(20,330,245)	(20,477,618)
Principal paid on revenue and general obligation bonds	(7,495,000)	(7,190,000)
Interest paid on revenue and general obligation bonds	(2,187,601)	(2,320,765)
Bond proceeds	44,531,178	10,835,143
Net cash provided by (used for) capital and related financing activities	<u>14,518,332</u>	<u>(19,158,728)</u>
<b>Cash flows from investing activities, interest and dividends</b>	<u>72,361</u>	<u>156,145</u>
Net increase in cash and cash equivalents	26,515,758	6,772,496
<b>Cash and cash equivalents</b>		
Beginning of year	35,362,926	28,590,430
End of year	<u>\$ 61,878,684</u>	<u>\$ 35,362,926</u>
Reconciliation of operating income to net cash provided by operating activities, operating income	<u>\$ 8,146,863</u>	<u>\$ 9,070,906</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	5,607,978	5,431,159
Decrease (increase) in accounts receivable	154,533	(183,164)
Decrease in accrued interest receivable	557	11,268
Decrease (increase) in contract retainage receivable	115,570	(95,570)
Increase in due from other funds	(201,074)	(183,459)
Decrease in inventory	6,009	5,680
(Decrease) increase in accounts payable	(237,087)	691,167
Increase in accrued liabilities	298,530	89,963
(Decrease) increase in due to other funds	(2,705,417)	8,808,587
Total adjustments	<u>3,039,599</u>	<u>14,575,631</u>
Net cash provided by operating activities	<u>\$ 11,186,462</u>	<u>\$ 23,646,537</u>
<b>Other</b>		
Cash paid for interest	<u>\$ 2,187,601</u>	<u>\$ 2,320,765</u>

The accompanying notes are an integral part of these financial statements.

# City of Lansing, Sewage Disposal System Fund

## Notes to Financial Statements

### June 30, 2004 and 2003

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#### 1. Basis of Presentation and Significant Accounting Policies

The Sewage Disposal System Fund ("SDF"), an Enterprise Fund owned and operated by the City of Lansing, was established to account for the provision of sewage disposal services to the residents of the City. The Fund is included as a Proprietary Fund type in the City of Lansing's Basic financial statements.

##### **Basis of Presentation**

Significant accounting policies followed by the SDF (an enterprise fund of the City of Lansing) in preparation of the accompanying financial statements follow:

- This annual report consists of financial statements prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

The three net asset categories are as follows:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvements of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the line, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

##### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting. The System reports as a Business Type Activity, as defined by GASB Statement No. 34. Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In preparing the financial statements, the Authority has applied all Financial Accounting Standards Board statements and Interpretations issued after November 30, 1989, except those that conflict or contradict Governmental Accounting Standards Board pronouncements.

##### **Cash and Cash Equivalents**

For the purposes of the statements of cash flows, the Sewage Disposal System Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

**City of Lansing, Sewage Disposal System Fund**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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**Investments**

All investments held by the City with original maturities of one year or more are stated at fair value, in accordance with Government Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment pools*.

**Bond Issue Costs and Amortization**

Bond issue costs are amortized using the straight-line method over the life of the bonds.

**Unamortized Bond Discounts**

Discount on long-term debt is amortized using the straight-line method over the life of the bonds.

**Inventory**

Inventory is valued at the lower of cost (first-in, first-out method) or market.

**Capital Assets**

Capital assets are stated at cost and are depreciated on a straight-line basis over their estimated useful lives.

Buildings	30 to 50 years
Improvements	8 to 50 years
Equipment	3 to 15 years
Sanitary sewers	50 years

**Capitalized Interest**

The City capitalizes qualifying net interest costs in the System on bonds issued for capital construction in accordance with Statements of Financial Accounting Standards Nos. 34 and 62.

**Equity**

Equity is segregated into contributed capital and retained earnings components. Depreciation recognized on fixed assets acquired through intergovernmental grants, entitlements or shared revenues, externally restricted to capital acquisitions, is closed to contributed capital.

**Reclassifications**

Prior-year balances have been reclassified to conform with the current year presentation.

**2. Deposits and Investments**

**Deposits**

Included in total cash and cash equivalents of \$61,878,684 (\$23,942,096 unrestricted and \$37,936,588 restricted) at June 30, 2004 is cash with a carrying amount and bank balance of \$35,000,000 of which \$200,000 is covered by federal depository insurance. The remaining amounts included in cash and cash equivalents are short-term investments.

Cash and cash equivalents in the statement of cash flows consist of the following:

**City of Lansing, Sewage Disposal System Fund**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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	<b>2004</b>	<b>2003</b>
<b>Cash and cash equivalents</b>	\$ 23,942,096	\$ 26,198,160
<b>Restricted assets, cash and cash equivalents</b>		
Bond and Interest Redemption Fund	4,731,592	4,378,643
Bond Project Fund	33,204,996	4,786,123
	<u>\$ 61,878,684</u>	<u>\$ 35,362,926</u>

**3. Capital Assets**

Capital assets consist of the following:

	<b>2004</b>	<b>2003</b>
Land	\$ 202,339	\$ 202,339
Plant	123,787,351	123,787,351
Pump stations	13,487,042	13,487,042
Sewers	129,860,728	129,860,728
Machinery and equipment	1,336,214	1,278,195
Construction in progress	73,917,518	53,537,869
Total capital assets	342,591,192	322,153,524
Less: Accumulated depreciation	(83,203,547)	(77,595,570)
Net capital assets	<u>\$ 259,387,645</u>	<u>\$ 244,557,954</u>

Construction in progress consists primarily of costs incurred for the City's combined sewer overflow project which is funded by the City's General Fund and operating revenues of the Sewage Disposal Fund.



**City of Lansing, Sewage Disposal System Fund**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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**4. Long-Term Debt**

The following is a summary of long-term debt transactions for the year ended June 30, 2004:

	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Accrued Compensated Absences</b>	<b>Total</b>
Payable, June 30, 2002	\$62,001,904	\$ 32,705,000	\$ 522,722	\$ 95,229,626
Debt retired	(3,715,000)	(3,475,000)	-	(7,190,000)
Fiscal 2002 debt issued	10,835,143	-	-	10,835,143
Increase in accrued compensated absences	-	-	39,503	39,503
Payable, June 30, 2003	69,122,047	29,230,000	562,225	98,914,272
Debt retired	(3,780,000)	(13,735,000)	-	(17,515,000)
Fiscal 2004 debt issue	14,671,178	39,880,000	-	54,551,178
Increase in accrued compensated absences	-	-	428,659	428,659
(Decrease) in accrued compensated absences	-	-	(354,167)	(354,167)
	80,013,225	55,375,000	636,717	136,024,942
Add: Unamortized premium	-	1,012,908	-	1,012,908
Less: Unamortized discount	-	(92,085)	-	(92,085)
Less: Deferred loss on extinguishment of debt	-	(1,075,039)	-	(1,075,039)
Payable, June 30, 2004	<u>\$80,013,225</u>	<u>\$ 55,220,784</u>	<u>\$ 636,717</u>	<u>\$ 135,870,726</u>

**City of Lansing, Sewage Disposal System Fund**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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General obligation bonds issued by the City of Lansing that are being serviced — principal and interest — by the Sewage Disposal System Fund are as follows:

\$7,128,800 - 1992 Limited Tax Bond, due in annual installments of \$355,000 to \$425,000 through October 1, 2013, interest at the rate of 2% per annum	\$ 3,905,000
\$8,150,050 - 1993 Limited Tax Bond, due in annual installments of \$385,000 to \$470,000 through October 1, 2014, interest at the rate of 2% per annum	4,705,000
\$3,234,722 - 1994 Limited Tax Bond, due in annual installments of \$150,000 to \$185,000 through October 1, 2015, interest at the rate of 2% per annum	2,010,000
\$3,727,138 - 1994 Limited Tax Bond, due in annual installments of \$116,930 to \$230,000 through October 1, 2015, interest at the rate of 2% per annum	2,257,138
\$515,969 - 1994 Limited Tax Bond, due in annual installments of \$30,000 to \$35,000 through April 1, 2013 interest at the rate of 2.25% per annum	290,000
\$7,595,611 - 1995 Limited Tax Bond, due in annual installments of \$315,000 to \$465,000 through April 1, 2016, interest at the rate of 2.25% per annum	4,665,000
\$3,475,000 - 1996 Limited Tax Bond, due in annual installments of \$160,000 to \$215,000 through April 1, 2017, interest at the rate of 2.25% per annum	2,330,073
\$3,995,000 - 1996 Limited Tax Bond, due in annual installments of \$185,000 to \$245,000 through October 1, 2017, interest at the rate of 2.25% per annum	2,980,000
\$5,090,000 - 1997 Limited Tax Bond, due in annual installments of \$230,000 to \$310,000 through October 1, 2018, interest at the rate of 2.25% per annum	3,496,985
\$11,255,000 - 1998 Limited Tax Bond, due in annual installments of \$495,000 to \$690,000 through October 1, 2019, interest at the rate of 2.25% per annum	8,303,019
\$10,120,000 - 1999 Limited Tax Bond, due in annual installments of \$435,000 to \$635,000 through April 1, 2020, interest at the rate of 2.5% per annum	7,311,225
\$9,805,000 - 2000 Limited Tax Bond, due in annual installments of \$415,000 to \$615,000 through April 1, 2021, interest at the rate of 2.5% per annum	7,368,551
\$10,860,000 - 2001 Limited Tax Bond, due in annual installments of \$445,000 to \$680,000 through April 1, 2022, interest rate of 2.5% per annum	9,661,095
\$13,645,000 - 2002 Limited Tax Bond, due in annual installments of \$545,000 to \$855,000 through October 1, 2023, interest at the rate of 2.5% per annum	11,677,770
\$10,350,000 - 2003 Limited Tax Bond, due in annual installments of \$405,000 to \$650,000 through October 1, 2024, interest at the rate of 2.5% per annum	7,826,143
\$4,670,000 - 2004 Limited Tax Bond, due in annual installments of \$190,000 to \$285,000 through October 1, 2005, interest at the rate of 2.125% per annum	564,711
\$9,605,000 - 2004 Limited Tax Bond, due in annual installments of \$390,000 to \$585,000 through October 1, 2005, interest at the rate of 2% per annum	661,515
	<u>80,013,225</u>
Less: Current maturities	<u>(4,420,000)</u>
Total long-term general obligation bonds	<u>\$75,593,225</u>

**City of Lansing, Sewage Disposal System Fund**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

Revenue bonds issued by the City of Lansing that are being serviced — principal and interest — by the Sewage Disposal System Fund and are secured by sewage revenues are as follows:

\$20,845,000 - 1994 Sewage Disposal System Bonds, due in annual installments of \$430,000 to \$470,000 through May 1, 2014, interest rates ranging from 5.20% to 5.85%	\$ 900,000
\$26,415,000 - 1998 Sewage Disposal System Bonds, due in annual installments of \$875,000 to \$3,240,000 through May 1, 2014, interest rates ranging from 4.00% to 5.0%	14,685,000
\$39,880,000 - 2003 Sewage Disposal System Bonds, due in annual installments of \$575,000 to \$2,365,000 through May 1, 2028, interest rates varying from 2.00% to 5.0%	39,790,000
	<u>55,375,000</u>
Add: Premium on bonds payable	1,012,908
Less	
Unamortized discount	(92,085)
Current maturities	(3,665,000)
Deferred loss on extinguishment of debt	<u>(1,075,039)</u>
Total long-term revenue bonds payable	<u>\$ 51,555,784</u>

The annual requirements to service all long-term debt outstanding as of June 30, 2004, including interest payments are as follows:

	<b>General Obligation Bonds</b>	<b>Revenue Bonds</b>	<b>Total</b>
2005	\$ 6,269,734	\$ 6,104,963	\$ 12,374,697
2006	6,681,078	6,103,753	12,784,831
2007	7,250,059	6,102,990	13,353,049
2008	7,128,042	4,832,400	11,960,442
2009-2013	33,806,407	23,051,470	56,857,877
2014-2018	26,615,488	14,870,900	41,486,388
2019-2023	8,097,792	11,319,000	19,416,792
2024-2028	-	9,398,400	9,398,400
	<u>\$ 95,848,600</u>	<u>\$ 81,783,876</u>	<u>\$ 177,632,476</u>

**Sewage Disposal System Revenue Bonds**

The Sewage Disposal System revenue bonds were issued under the authority of Revenue Bond Ordinance 29A. The ordinance requires monies to be set aside in certain restricted funds as follows:

**City of Lansing, Sewage Disposal System Fund**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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- **Bond and interest redemption fund** - This fund is restricted to the payment of bond principal and interest. One-sixth of the interest next due is set aside monthly until such amounts equal the next required payment. One-twelfth of the principal payment next due is also set aside monthly. This fund also includes a Bond Reserve Account in which \$4,731,591 is deposited. This amount equals the largest annual debt service payment, based on criteria of a bond reserve test, which can be used to make up any deficiency in the Bond and Interest Redemption Fund. For fiscal year 2004, the amount required to be deposited and/or reserved is \$4,378,544.
- **Bond project fund** - This fund holds the proceeds from the sale of the 1994, 1998 and 2003 Sewage Disposal System Revenue bonds, less the amount deposited in the Bond Reserve Account for the largest annual debt service payment. Funds in the Bond Project Fund are applied solely to payment of costs incurred in the Sewage Disposal Project.

**5. Retirement Commitments**

All full-time employees of the System participate in the City of Lansing's Employee Retirement Fund or Employees' Money Purchase Plan. There is no separate actuarial valuation for the System. Pension expense for the Sewage Disposal System Fund was \$1,205,587 for the year ended June 30, 2004.

The City provides postretirement health care benefits, in accordance with labor agreements, to full-time employees of the City, including those employed by the Sewage Disposal System. Depending on the date hired, members are eligible to receive health care benefits with a minimum of 8 to 15 years of service and an age requirement ranging to age 58. The City provides the full cost of health benefits to retirees, payable to health care vendors, and also reimburses retirees eligible for Medicare benefits of \$50.00 per month for each covered retiree and dependent(s). The payments are charged to the General Fund of the City and are recognized as expenditures as payments are made. Payments relating to the System's retirees are not readily determinable. During the year, payments of health care benefits made by the City of Lansing totaled \$12,757,242.

There were no significant changes in health benefits during 2004.

**6. Affiliated Entities**

Operating revenues for sewer fees and charges are billed to the users through the Board of Water and Light, an affiliated entity. At June 30, 2004, \$1,727,222 was due from the Board for sewer, collected fees and charges.

The Fund does not process interdepartmental billings. All affiliated utilities are billed at regular adopted rates.

**City of Lansing, Sewage Disposal System Fund**  
**Notes to Financial Statements**  
**June 30, 2004 and 2003**

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**7. Contingent Liabilities**

The Sewage Disposal System participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors and their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Sewage Disposal System Fund expects such amounts, if any, to be immaterial.

**8. Reconciliation of Due To/From**

Interfund due to/from balances consist of the following:

<b>2004</b>			
<b>Due From</b>	<b>General Fund</b>	<b>Due to Sewage Disposal System Fund</b>	<b>Total</b>
General Fund	\$ -	\$ -	\$ -
Sewage Disposal System Fund	2,514,635	3,793,677	6,308,312
<b>Total</b>	<b>\$ 2,514,635</b>	<b>\$ 3,793,677</b>	<b>\$ 6,308,312</b>
<b>2003</b>			
<b>Due From</b>	<b>General Fund</b>	<b>Due to Sewage Disposal System Fund</b>	<b>Total</b>
General Fund	\$ -	\$ -	\$ -
Sewage Disposal System Fund	5,421,126	3,592,603	9,013,729
<b>Total</b>	<b>\$ 5,421,126</b>	<b>\$ 3,592,603</b>	<b>\$ 9,013,729</b>